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S E C R E T SECTION 01 OF 03 STATE 023624

SIPDIS

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TAGS: KNNP MNUC IR GM UK EFIN ECON XG XT
SUBJECT: RESPONSE TO UK IRAN SANCTIONS ROUNDUP

REF: A. A) LONDON 118
 B. B) LONDON 254

Classified By: CLASSIFIED BY ISN Principal Deputy Assistant Secretary C.S. Eliot Kang, REASONS 1.4 (B) AND (D).

¶1. (U) This is an action request. Please see paragraph three.

SUMMARY

¶2. (S/REL UK) The U.S. would like to provide the following information in response to questions from HMG regarding recent actions against Iranian proliferation-related entities.

OBJECTIVES/ACTION REQUEST

¶3. (U) Washington provides the following information in response to REF A and B from Post regarding HM Government Iran-related sanctions questions. Post is requested to convey the information in paragraphs 4-8 to relevant UK Government agencies as appropriate.

BACKGROUND AND NONPAPER

¶4. BEGIN S/REL UK NON-PAPER

-- (C) Regarding HM Treasury's question on whether the USG has information about ASSA Co. Ltd's involvement with Iranian entities through UK subsidiaries:

-- (U) To the best of our knowledge, ASSA Co. Ltd., the parent of ASSA Corp., New York, does not have subsidiaries based in the UK. ASSA Co. Ltd. was designated for being controlled by Bank Melli. ASSA Co. Ltd., which is located in Jersey, is essentially a shell company created to add another layer between Bank Melli and ASSA Corp. in New York.

Closing Subsidiaries of Designated Entities

¶5. (S//REL UK) Regarding the status of Bank Sepah's London branch, Washington would like to share the following information with HMG about the operations of Bank Sepah London.

-- (S//REL UK) The UK's branch of Bank Sepah, Bank Sepah International, continued facilitating a large number of transactions in 2008, despite its designation by both the UN Security Council and the EU. During May-August 2008, banks in the United Kingdom, mainly Iranian bank branches, facilitated over \$25 billion worth of transactions with Iranian banks.

--(S//REL UK) Bank Sepah International in London facilitated over \$145 million worth of transactions with Bank Sepah Tehran, but under \$20,000 worth of transactions with other banks during the same time period.

¶6. (S//REL UK) In response to the question regarding whether the U.S. has closed down "clean" subsidiaries of a sanctioned parent company (Ref A), Treasury is working to provide additional material on sanctioned UK subsidiaries, which will be provided septel. We have also provided the following information on previous cases as an interim response.

-- (U) The U.S. has shut down the U.S. operations of sanctioned banks in at least two instances. We also are aware of one example where the UK closed the London office of a sanctioned bank. In the case of the U.S. banks, the Office of Foreign Assets Control (OFAC) always worked very closely with the banks' primary and secondary regulators when taking any action.

-- (U) First, when the UN Security Council imposed sanctions on the Government of the Federal Republic of Yugoslavia (Serbia & Montenegro) in the late 1990s, the U.S. initiated a block against the Yugoslav banks, Jugobanka and Beogradsko Banka. OFAC blocked the banks immediately following the UN action and for a year allowed the banks to engage in very

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limited transactions, such as paying staff and addressing administrative issues. OFAC never granted a license for either bank to conduct new banking business or to pay out on any outstanding debts. U.S. bank examiners were assigned to the banks, conducting on-site monitoring of all bank activities. The OFAC licenses to allow the limited transactions were ultimately revoked because there were concerns about even those limited activities and the blocked funds of the bank were being depleted. The physical property of the banks was either liquidated or moved into storage. The New York State Banking Department (the banks' primary U.S. regulator) took possession of the banks' records and suspended their New York State banking licenses. When the sanctions were lifted, OFAC unblocked the banks' assets, allowing the New York State Banking Department to pursue liquidation proceedings. This example is further complicated because of the issues that ensued with various Yugoslavia successor states claiming ownership of the banks' assets.

-- (U) The second example involves the Iranian banks, Bank Melli, Bank Saderat, and Bank Sepah. These three banks had operating branches in the U.S. (New York, Chicago and Los Angeles) when U.S. sanctions were escalated in 1995. While the sanctions did not involve a blocking program, the banks were not allowed to conduct any transactions without a license from OFAC. OFAC issued licenses to the banks that allowed them to wind down outstanding trade finance transactions for approximately 9 months. No new business was allowed during that time. In 1996, OFAC revoked the banks' licenses that had allowed the limited transactions and issued a new license allowing the banks to downgrade to limited representative offices. At the same time, the New York State Banking Department revoked the Agency licenses for the banks and re-issued licenses allowing the operation of limited representative offices. In accordance with NY State banking law, the banks were required to deposit an amount of money, equal to the largest

amount of money owed to creditors, into an escrow account. Those debts were then resolved through the court system and paid out from the escrow account. The representative offices eventually closed and no Iranian bank currently has any presence in the United States.

--(S//REL UK) OFAC believes that the UK could choose to take similar action regarding the designated Iranian bank branches in London. OFAC officials have spoken to British

counterparts about this for several months. If the UK has the legal authority to do so, the UK could create an escrow account at the Bank of England and allow debts to be paid out from those funds with a license, and either close the banks or downgrade them to representative offices. If sanctions were ever lifted and funds remained, the escrow account could be unfrozen.

-- (U) The U.S. is also aware of one example where the UK shut down a bank in London. In 1990, when the UN Security Council imposed multilateral sanctions against Iraq, the UK blocked the London branch of Rafidain Bank, a bank owned/controlled by the Government of Iraq. Ultimately, the UK banking authorities oversaw the liquidation of the bank and it was closed.

-- (S//REL UK) There are similarities between Rafidain Bank and the current situation with the Iranian banks in that both were targets of a blocking program. The main difference between these situations appears to be that Rafidain Bank had liquidity problems which likely gave the UK banking regulators the authority to conduct an involuntary liquidation of the bank, regardless of the blocking action.

Additional Information

¶17. (S//REL UK) The UK government has requested additional unclassified information on Bank Mellat, Bank Saderat, Bank Tejarat, and Persia International Bank in Ref A and Bank Melli and IRISL in Ref B. Regarding those entities that have already been designated by the U.S. (Bank Mellat, Bank Saderat, Bank Melli, and IRISL), the U.S. Government pursued the most extensive declassification possible prior to the designation of these entities in order to support the public statements of the case. While it is unlikely that the U.S. will be able to provide additional unclassified information on these entities that would be stronger than that already presented in the public records, Treasury is seeking declassification of some additional information on Bank Melli. Regarding Bank Tejarat and Persia International Bank, Treasury is working to provide any additional information and will send septel.

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World Bank

¶18. (S//REL UK) With regard to a possible Iranian action request for World Bank funds (Ref A), the U.S. position on this issue to date is as follows:

-- (U) Given Iran's use of its state-owned banks and the international financial system to facilitate its nuclear and missile programs and to support terrorism, we do not support sending U.S. taxpayer money to Iran. The U.S. has consistently voted "no" on World Bank activities in Iran since the 1980s, and we will continue to oppose any assistance for Iran. The U.S. voted against specific Multilateral Investment Guarantee Agency (MIGA) guarantees in 2005 and expressed strong opposition to their approval because of human rights concerns in Iran. The U.S. has urged the World Bank to do act in accordance with the requirements of existing UNSC resolutions on Iran, and to avoid any activity that could facilitate Iran's nuclear or missile programs.

END S/REL UK NON-PAPER

REPORTING DEADLINE

¶9. (U) Post should report results within seven business days of receipt of this cable. Please slug replies for ISN, T, IO, EUR, TREASURY, and NEA. Please include SIPDIS in all replies.

POINT OF CONTACT

¶10. (U) Washington points of contact for follow-up information are Kevin McGeehan, ISN/CPI, (202) 647-5408, McGeehanKJ@state.sgov.gov, and DeAnna Fernandez, Treasury/TFFC, (202) 622-7937, fernandezd@tsdn.treasury.sgov.gov.

¶11. (U) Department thanks Post for its assistance.
CLINTON